

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF KENDALLVILLE

NOBLE COUNTY, INDIANA

January 1, 2013 to December 31, 2013



FILED

09/05/2014

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Federal Findings:	
Finding 2013-001 - Internal Controls Over Financial Transactions and Reporting.....	6
Finding 2013-002 - Internal Controls Over Schedule of Expenditures of Federal Awards...	6-7
Corrective Action Plan	8
Exit Conference	9

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sheryl J. Hanes	01-01-12 to 12-31-15
Mayor	W. Suzanne Handshoe	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	James Dazey	01-01-13 to 12-31-14
President Pro Tempore of the Common Council	April Waters James Dazey	01-01-13 to 12-31-13 01-01-14 to 12-31-14



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF KENDALLVILLE, NOBLE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Kendallville (City), for the period from January 1, 2013 to December 31, 2013. It has been provided as a separate report so that the reader may easily identify any Federal Findings that pertain to the City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

August 5, 2014

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CLERK-TREASURER
CITY OF KENDALLVILLE

CLERK-TREASURER
CITY OF KENDALLVILLE
FEDERAL FINDINGS

FINDING 2013-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted the following deficiency in the internal control system of the City related to financial transactions and reporting. We believe the following deficiency constitutes a material weakness.

Control activities should be selected and developed at various levels of the City to reduce risks of error and/or fraud of the financial statement. The City has not separated incompatible activities related to the preparation of the bank reconciliation. No oversight or approval of the monthly bank reconciliation as prepared by the Clerk-Treasurer is performed by another party. The failure to establish these controls could enable material misstatements to be undetected.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FINDING 2013-002 - INTERNAL CONTROLS OVER SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors: two grants were excluded, two grants were overstated, and one grant should not have been reported. Audit adjustments of \$465,644 were proposed, accepted by the City, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

CLERK-TREASURER
CITY OF KENDALLVILLE
FEDERAL FINDINGS
(Continued)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

City of Kendallville

234 S. Main Street

Kendallville, IN 46755-1795

www.kendallville-in.org

CORRECTIVE ACTION PLAN

FINDING 2013-001

Sheryl Hanes
(260) 347-7025

Description of Corrective Action Plan:

Bank Reconciliation and Fund Report are distributed to all members of the City Common Council, City Attorney, and Mayor. The Council President is now signing off on the Bank reconciliation and is placed in the Bank Reconciliation binder.

FINDING 2013-002

Sheryl Hanes
(260) 347-7025

Description of Corrective Action Plan:

In order to strengthen the internal controls over the preparation of the financial statements, specifically the Schedule of Federal Expenditures, we agree to obtain a better understanding of exactly what information is to be reported on the document to ensure accuracy and completeness. We will cross reference the accounting system with the spreadsheet of grants and awards so as to include only federal monies expensed.

Anticipated Completion Date: August 1, 2014


Sheryl Hanes
(Signature)

Clerk/Treasurer
(Title)

July 15, 2014
(Date)

CLERK-TREASURER
CITY OF KENDALLVILLE
EXIT CONFERENCE

The contents of this report were discussed on August 5, 2014, with Sheryl J. Hanes, Clerk-Treasurer.